

An Internal Control Review

State Coastal Conservancy

Prepared by:
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Fontana, CA

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Preface

The primary responsibility of the State Coastal Conservancy (SCC) is an independent state agency within the Resource Agency of the State of California. In 1976, the legislature established SCC by Division 21 of the Public Resources Code. SCC public and private partnering entities along California's 1,100 mile coastline and within the San Francisco Bay Area. Their mission includes:

- creating public accessways to and along the coast,
- preserving coastal farmland, open space, and historic sites,
- preserving wildlife habitat,
- restoring wetland areas
- funding recreational and commercial coastal dependent projects.

SCC is one of nine Conservancies within the California Resource Agency. SCC funding is generated from environmental license plates, special funding, and propositions 12, 40, 50 and 84.

SCC management is responsible for the establishment and maintenance of internal and administrative controls. These controls are defined as a process to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting; (b) effectiveness and efficiency of operations; and (c) compliance with applicable laws and regulations. This definition includes five interrelated components:

- *Control environment* sets the tone of an organization, influencing the control consciousness of its staff. It is the foundation for all other internal control components, providing discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objective, forming a basis for determining how the risk should be managed.
- *Control activities* are the policies and procedures that help ensure management directives are carried out.
- *Information and communication* are the identification, capture, and exchange of information in a form and time frame that enable staff to carry out their responsibilities.
- *Monitoring* is the process that assesses the quality of internal control performance over time.

The objective of our internal control review was to assist the SCC in complying with the Financial Integrity and State Managers' Accountability Act of 1983. Specifically, we assisted the Conservancy in determining whether: (1) assets are safeguarded from unauthorized use or disposition; (2) financial transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements; and (3) financial operations are conducted in accordance with State Administrative Manual guidelines, and certain other state laws and regulations, as well as the Department's policies and procedures.

Our review did not include an evaluation of the efficiency or effectiveness of the SCC's operations, or the accomplishment of program goals or objectives.

This report is intended for the information and use of the Department management and should not be used for any other purpose. However, the report is a matter of public record and its distribution is not limited.

STAFF:

Sam Schuchat, Executive Officer

Neal Fishman, Deputy Executive Officer

Nadine Hitchcock, Deputy Executive Officer

Regine Serrano, Chief Administrative Services

Executive Summary

During our review of the State Coastal Conservancy (SCC) internal control as of December 31, 2007, we identified areas where controls were in place and working as intended, and also identified areas where controls could be improved to reduce the risk of errors, irregularities and material misstatements. Our findings and observations are summarized below. For further analysis refer to the Findings and Recommendations section of this report.

Administrative Controls: Documentation of policies and procedures are not sufficient to ensure proper control and accountability over the operations of the SCC. Specifically, policies and procedures for budgeting, information access/data integrity and fixed assets are not adequately documented.

Fixed Assets: Internal control over fixed assets is adequate in part. State assets were adequately identified by decals for IT equipment only, safeguarded and acquisitions and dispositions were properly approved and documented. However, office furniture was not identified by decals and no physical conducted and reconciled to the accounting records in the last 3 years.

Information Technology: Internal control over information technology is adequate. Access to accounting and fiscal software hardware is adequately controlled against outside threats. All personnel are assigned a user name and password to login into the system.

Cash Receipts: Internal control over cash receipts is adequate. Evidence of proper segregation of duties exists within the accounting department.

Receivable: Internal control over receivable is adequate. Evidence of proper segregation of duties exists within the accounting department.

Budget: Controls over the budget functions appear adequate to ensure the reliability and integrity of data. Although the policies and procedures over the budget process are not documented, the Conservancy's budget was developed timely through input and review from the executive management, administrative personnel and the SCC's board.

Purchasing: Purchasing controls appear adequate to ensure that purchases are justified, reasonable; consistent with laws and regulations, and that the Conservancy's assets are appropriately safeguarded when received. Policies and procedures over the purchasing process are adequately documented; we observed that purchases of goods and services are proper, economic and include appropriate authorizations and that invoices are reviewed and processed promptly and accurately.

Cash Disbursement: Internal control over cash disbursements is adequate. Evidence of proper segregation of duties exists within the accounting department.

Revolving Fund: Internal control over revolving fund is adequate. Evidence of proper segregation of duties exists within the accounting department.

Payroll/Personnel: Internal control over personnel and payroll is ensuring timely monthly payroll processing and properly maintained leave records.

Contracts: Contracting controls are adequate. Policies and procedures exist over contract controls are documented, contracts are supported by appropriate documentation, competitive bidding requirements are followed and contracts are properly authorized and monitored.

Financial Reporting: Financial reporting controls appear adequate. Required financial statements are properly prepared, certified and submitted timely.

This report is intended to assist the SCC's management in focusing attention on areas of deficiency, strengthening internal control and improving operations.

Auditor's Report

Mr. Samuel Schuchat, Executive Officer
State Coastal Conservancy
1330 Broadway, Suite 1300
Oakland, CA 94612

We have reviewed the State Coastal Conservancy (SCC) internal control as of December 31, 2007, for conformity with Government Code Section 13400 et. Seq. Our review included obtaining an understanding of internal control through observations and interviews, testing and evaluating the design and operating effectiveness of the internal control and performing other procedures we considered necessary.

The Conservancy's management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code Section 13400 et. Seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control are to provide reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements
- Financial operations are conducted in accordance with policies and procedure established in State Administrative Manual.

Because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

In reviewing the Conservancy's internal control as of December 31, 2007, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to reporting that, in our judgment, could adversely affect the Conservancy's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness is a condition that precludes the Conservancy's internal control from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a

timely basis. We believe that none of the reportable conditions is a material weakness. The reportable conditions are described in the *Finding and Recommendations* section of this report.

This report is intended solely for the information and use of SCC management and is not intended to be and should not be used by anyone other than this specified party. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Jones & Company PC".

Jones & Company Professional Corporation
Fontana, California

May 26, 2008

Finding and Recommendations

We reviewed accounting and administrative controls at the State Coastal Conservancy office as of March 19, 2008. Many controls were functioning as intended; however, we identified areas where controls are either not in place or functioning as intended, and where corrective action is necessary.

Administrative Control

Administrative or managerial controls relate to operational efficiency, adherence to managerial policies, and management's authorization of transactions. Conservancy management is responsible for overseeing activities conducted within their agency. This responsibility includes the establishment and maintenance of internal accounting and administrative controls over operations. Each system an entity maintains to regulate and guide operations should be documented through flowcharts, narratives, desk procedures and organizational charts. The following weakness in the Conservancy's administrative controls were identified

FINDING 1 Inadequate Documentation of Policies and Procedures

Condition: The Conservancy does not maintain adequate documentation describing the policies and procedures associated with the following areas:

- Information Access/Data Integrity Controls
- Fixed Assets

Many policies and procedures are not documented and those which are documented are not formalized in an approved manual. Failure to adequately document and maintain current policies and procedures in a centralized manual increases the risk of inconsistencies and errors within operational processes, as well as diminishes the Conservancy's training effectiveness should a turnover in staff occur.

Criteria: State Administrative Manual (SAM) Section 20050 states, "the elements of a satisfactory system of internal accounting and administrative controls shall include a system of authorization and record keeping procedures to provide effective accounting control over assets, liabilities, revenues and expenditures.

Recommendation: Ensure all operational processes and procedures are appropriately documented, revised periodically and maintained in a centralized manual.

FINDING 2**Inadequate control over fixed assets**

Condition: SCC has not performed a complete inventory of its property or reconciled this count with its accounting records in the past 3 years as required by SAM.

Criteria: State Administrative Manual (SAM) Section 8652 states, “the department will make a physical count of all property and reconcile the count with the accounting records at least once every three years.

Recommendation: Ensure the physical inventory record are reconciled with the accounting records and adjusted accordingly.

FINDING 3**Inadequate control over fixed assets**

Condition: SCC has not affixed property number decals on all fixed assets as required by SAM.

Criteria: State Administrative Manual (SAM) Section 8651 states, “state property and fixed assets are promptly and properly identified.

Recommendation: Ensure the fixed assets are marked with a property number decal or other marking upon receipt.

Conclusions

Our review of the State Coastal Conservancy internal control presents opportunities for the SCC's management to correct identified weaknesses and improve its operations. Internal controls would be strengthened and the Conservancy would operate more efficiently and effectively if management implements our recommendations. The internal control weaknesses, if left uncorrected, increase the risk that material errors or irregularities could occur and remain undetected and could affect the accuracy of the Conservancy's financial records.

The findings in this report are based on fieldwork performed from March 3, 2008 to March 19, 2008. We presented these findings and non-reportable issues to the related Conservancy at the completion of each cycle and finally during our exit conference on March 19, 2008.

Conservancy's Response
